



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

January 29, 2009

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Dunkerton, Iowa.

The City's receipts totaled \$936,387 for the year ended June 30, 2007. The receipts included \$173,433 in property tax, \$225,037 from tax increment financing, \$221,629 from charges for service, \$185,189 from operating grants, contributions and restricted interest, \$79,069 from local option sales tax, \$26,867 from unrestricted interest on investments and \$25,163 from other general receipts.

Disbursements for the year totaled \$925,247, and included \$289,618 for debt service, \$205,104 for public safety and \$81,176 for public works. Also, disbursements for business type activities totaled \$194,760.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF DUNKERTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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City of Dunkerton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Manchester	Mayor	Resigned May 2007
Teresa Wheeler (Appointed)	Mayor	Jul 2007
Mark Brandes	Mayor Pro-tem	Jan 2008
Chris Gibson (Appointed)	Council Member	Nov 2007
Tom Bagby	Council Member	Jan 2008
Bill Knebel	Council Member	Jan 2008
Dale Steffen	Council Member	Jan 2008
Teresa Wheeler	Clerk	Resigned May 2007
Margaret Shaffer (Appointed)	Clerk	Indefinite
Marge Grady	Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

City of Dunkerton



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Dunkerton's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

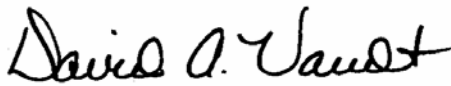
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

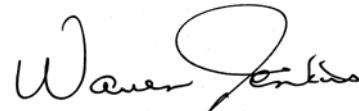
In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2008 on our consideration of the City of Dunkerton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunkerton's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Dunkerton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased \$1,373 due, in part, to increased General Fund disbursements.
- The cash basis net assets of the City's business type activities increased \$12,513 due to the cut backs in overall utility disbursements.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and solid waste systems. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and solid waste operations, of which water and sewer are considered to be major funds of the City.

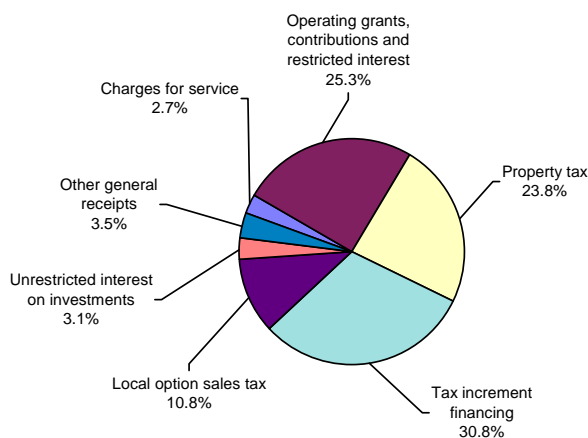
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

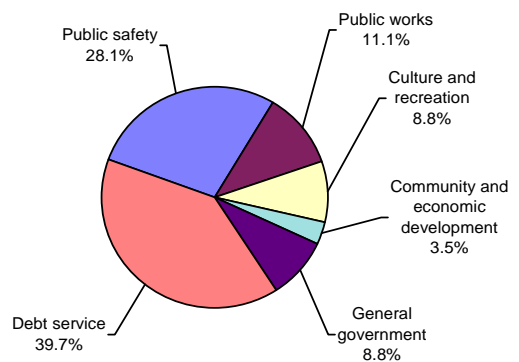
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$587,489 to \$586,116. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 19,683
Operating grants, contributions and restricted interest	184,454
General receipts:	
Property tax	173,433
Tax increment financing	225,037
Local option sales tax	79,069
Unrestricted interest on investments	22,275
Other general receipts	25,163
Total receipts	<u>729,114</u>
Disbursements:	
Public safety	205,104
Public works	81,176
Culture and recreation	64,414
Community and economic development	25,916
General government	64,259
Debt service	289,618
Total disbursements	<u>730,487</u>
Change in cash basis net assets	(1,373)
Cash basis net assets beginning of year	<u>587,489</u>
Cash basis net assets end of year	<u><u>\$ 586,116</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds decreased primarily due to an increase in General Fund disbursements.

The cost of all governmental activities this year was \$730,487. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$526,350 because some of the cost was paid by those directly benefited from the programs (\$19,683) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$184,454). The City paid for the remaining "public benefit" portion of governmental activities with \$524,977 in tax (some of which could only be used for certain programs) and other receipts, such as interest.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 63,485
Sewer	106,641
Solid waste	31,820
Operating grants, contributions and restricted interest	735
General receipts:	
Unrestricted interest on investments	4,592
Total receipts	<u>207,273</u>
Disbursements:	
Water	68,945
Sewer	95,979
Solid waste	29,836
Total disbursements	<u>194,760</u>
Change in cash basis net assets	12,513
Cash basis net assets beginning of year	<u>233,586</u>
Cash basis net assets end of year	<u>\$ 246,099</u>

Total business type activities cash basis net assets increased from a year ago, from \$233,586 to \$246,099. The overall increase is a result of the City collecting additional utility fees and cutting back on utility disbursements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Dunkerton completed the year, its governmental funds reported a combined fund balance of \$586,116, a decrease of \$1,373 from last year's total of \$587,489. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$2,773 from the prior year to a year-end balance of \$157,624. This increase is primarily due to a decrease in General Fund disbursements.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$208,089 to \$141,265 during the fiscal year due, in part, to the transfer of \$381,112 to the Debt Service Fund to repay debt.
- The Debt Service Fund cash balance increased \$216,306 to a balance of \$216,079 at the end of the fiscal year. This increase was primarily attributable to a \$381,112 transfer from the Special Revenue, Tax Increment Financing Fund for the purpose of paying off the series 2000 and series 2003 general obligation notes.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$3,508 to a year-end balance of \$50,410. This decrease was due primarily to an increase in water disbursements.
- The Sewer Fund cash balance increased \$14,037 to a year-end balance of \$187,699. The increase was due to less utility disbursements in the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 12, 2007 and resulted from planning for additional debt payments for the 2000 general obligation notes and additional tax increment finance payments for low to moderate income housing. The second amendment was approved on May 14, 2007 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$167,934 more than budgeted. This was due, in part, to the City budgeting \$100,000 for tax increment financing and actually collecting \$225,037.

Total disbursements were \$62,337 less than budgeted. This was primarily due to the City overestimating FY 2007 disbursements for the housing rehabilitation grant and budgeting for certain disbursements which did not occur in FY 2007, such as the purchase of new equipment in the Water Fund and capital outlays in the Sewer Fund. Also, the City budgeted for more debt principal and interest payments than were actually paid in FY 2007.

Even with the budget amendments, the City exceeded the amounts budgeted in the public safety and general government functions for the year ended June 30, 2007.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$425,000 in notes and other long-term debt outstanding compared to \$672,500 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2007	2006
General obligation notes	\$ 155,000	365,000
Revenue notes	210,000	240,000
Contingency fund loan	60,000	67,500
Total	\$ 425,000	672,500

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$1,633,592 below its constitutional debt limit of approximately \$1,848,592.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Dunkerton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities.

The General Fund levy was set at \$8.10 per \$1,000 of taxable valuation with an additional levy of \$.35445 per \$1,000 of taxable valuation for debt service.

Included in the tax asking and fiscal year 2008 budget was a new ambulance for the City for approximately \$100,000. Of this, \$25,000 was expended for the down payment and the final \$75,000 will be disbursed in July 2008. This was addressed in a fiscal year 2008 budget amendment.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret Shaffer, City Clerk, P.O. Box 100, Dunkerton, IA 50626-0100.

Basic Financial Statements

City of Dunkerton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

		Program Receipts	
		Charges for	Operating Grants, Contributions and Restricted Interest
	Disbursements	Service	
Functions/Programs:			
Governmental activities:			
Public safety	\$ 205,104	17,480	69,840
Public works	81,176	-	62,509
Culture and recreation	64,414	2,203	6,542
Community and economic development	25,916	-	44,923
General government	64,259	-	640
Debt service	289,618	-	-
Total governmental activities	730,487	19,683	184,454
Business type activities:			
Water	68,945	63,485	535
Sewer	95,979	106,641	200
Solid waste	29,836	31,820	-
Total business type activities	194,760	201,946	735
Total	\$ 925,247	221,629	185,189
General Receipts:			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Urban renewal			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(117,784)	-	(117,784)
(18,667)	-	(18,667)
(55,669)	-	(55,669)
19,007	-	19,007
(63,619)	-	(63,619)
(289,618)	-	(289,618)
(526,350)	-	(526,350)
-	(4,925)	(4,925)
-	10,862	10,862
-	1,984	1,984
-	7,921	7,921
(526,350)	7,921	(518,429)
109,113	-	109,113
225,037	-	225,037
64,320	-	64,320
79,069	-	79,069
22,275	4,592	26,867
25,163	-	25,163
524,977	4,592	529,569
(1,373)	12,513	11,140
587,489	233,586	821,075
\$ 586,116	246,099	832,215
\$ 19,154	-	19,154
141,265	-	141,265
216,079	-	216,079
51,994	-	51,994
157,624	246,099	403,723
\$ 586,116	246,099	832,215

Exhibit B

City of Dunkerton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2007

	Special Revenue		Debt Service	Nonmajor	Total
	General	Tax Increment Financing			
Receipts:					
Property tax	\$ 109,113	-	64,320	-	173,433
Tax increment financing	-	225,037	-	-	225,037
Local option sales tax	79,069	-	-	-	79,069
Licenses and permits	7,444	-	-	-	7,444
Use of money and property	13,675	8,478	-	1,167	23,320
Intergovernmental	100,613	-	-	62,509	163,122
Charges for service	18,021	-	-	-	18,021
Miscellaneous	26,825	-	-	12,843	39,668
Total receipts	354,760	233,515	64,320	76,519	729,114
Disbursements:					
Operating:					
Public safety	186,404	-	-	18,700	205,104
Public works	10,994	-	-	70,182	81,176
Culture and recreation	64,414	-	-	-	64,414
Community and economic development	25,916	-	-	-	25,916
General government	64,259	-	-	-	64,259
Debt service	-	60,492	229,126	-	289,618
Total disbursements	351,987	60,492	229,126	88,882	730,487
Excess (deficiency) of receipts over (under) disbursements	2,773	173,023	(164,806)	(12,363)	(1,373)
Other financing sources (uses):					
Operating transfers in	-	-	381,112	-	381,112
Operating transfers out	-	(381,112)	-	-	(381,112)
Total other financing sources (uses)	-	(381,112)	381,112	-	-
Net change in cash balances	2,773	(208,089)	216,306	(12,363)	(1,373)
Cash balances beginning of year	154,851	349,354	(227)	83,511	587,489
Cash balances end of year	\$ 157,624	141,265	216,079	71,148	586,116
Cash Basis Fund Balances					
Reserved for debt service	\$ -	-	216,079	-	216,079
Unreserved:					
General fund	157,624	-	-	-	157,624
Special revenue funds	-	141,265	-	60,641	201,906
Capital projects fund	-	-	-	10,507	10,507
Total cash basis fund balances	\$ 157,624	141,265	216,079	71,148	586,116

See notes to financial statements.

City of Dunkerton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2007

	Enterprise			
	Water	Sewer	Nonmajor Solid Waste	Total
Operating receipts:				
Charges for service	\$ 62,376	106,641	28,824	197,841
Miscellaneous	1,644	200	2,996	4,840
Total operating receipts	64,020	106,841	31,820	202,681
Operating disbursements:				
Business type activities	68,945	54,464	29,836	153,245
Excess (deficiency) of operating receipts over (under) operating disbursements	(4,925)	52,377	1,984	49,436
Non-operating receipts (disbursements):				
Interest on investments	1,417	3,175	-	4,592
Debt service	-	(41,515)	-	(41,515)
Net non-operating receipts (disbursements)	1,417	(38,340)	-	(36,923)
Net change in cash balances	(3,508)	14,037	1,984	12,513
Cash balances beginning of year	53,918	173,662	6,006	233,586
Cash balances end of year	\$ 50,410	187,699	7,990	246,099
Cash Basis Fund Balances				
Reserved for debt service	\$ -	37,835	-	37,835
Unreserved	50,410	149,864	7,990	208,264
Total cash basis fund balances	\$ 50,410	187,699	7,990	246,099

See notes to financial statements.

City of Dunkerton

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Dunkerton is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Dunkerton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission and Black Hawk County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Dunkerton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long Term Debt Payable

Annual debt service requirements to maturity for general obligation notes, sewer revenue notes and the contingency fund loan are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Contingency Fund Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 25,000	5,290	30,000	10,015	7,500	-	62,500	15,305
2009	25,000	4,540	30,000	8,665	7,500	-	62,500	13,205
2010	25,000	3,765	35,000	7,285	7,500	-	67,500	11,050
2011	25,000	2,940	35,000	5,640	7,500	-	67,500	8,580
2012	25,000	2,065	40,000	3,960	7,500	-	72,500	6,025
2013 - 2015	30,000	1,140	40,000	2,000	22,500	-	92,500	3,140
							-	
Total	\$ 155,000	19,740	210,000	37,565	60,000	-	425,000	57,305

Revenue Notes

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer sinking account for the purpose of making the note principal and interest payments when due.
- (c) A sewer reserve account shall be created into which there shall be set aside an amount equal to 25 percent of the amount required to be deposited in the sewer sinking account. The sewer reserve account is restricted for the purpose of paying principal and interest due on the sewer revenue notes when sufficient money is not available in the sewer sinking account.

The City has not established the required sewer sinking and sewer reserve accounts.

Contingency Fund Loan

The City has entered into a contingency fund loan agreement with the Emergency Management Division of the Iowa Department of Public Defense for disaster related reconstruction of the City Hall and related facilities. The agreement was entered into July 10, 2000 for a total of \$112,500. The loan is interest free and requires annual payments of \$7,500 per year beginning July 1, 2001, with the final payment due July 1, 2015.

During the year ended June 30, 2007, the City paid \$7,500 with a balance due and unpaid as of June 30, 2007 of \$60,000.

(4) Development and Rebate Agreement

The City entered into a development and rebate agreement during the year ended June 30, 1999 to assist in urban renewal projects. The City agreed to rebate incremental taxes paid by the developer in exchange for the reimbursed costs of certain public improvement infrastructure constructed by the developer as set forth in the urban renewal plan.

In accordance with the fiscal year 1999 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.10 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreement is not to exceed 50% of the total projected costs. Of the amount collected, 62.5% is to be paid to the developer and 37.5% is to be used for the development of low and moderate income housing projects. During the year ended June 30, 2007, the City paid \$41,894 for low to moderate income housing projects from the tax increment financing collections received.

City officials could not locate records to document the status of remaining low and moderate income housing project funds, if any, outstanding at June 30, 2007.

No bonds or notes were issued for these projects.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$11,279, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation and compensatory time	<u>\$ 5,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	<u>\$ 381,112</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resource

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2007 were \$13,919.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claims and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contributions which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Subsequent Events

On December 18, 2007, the City entered into a “Capital Campaign Contract” with Lybeck Philanthropic Consulting Services for the purposes of raising funds for a new Dunkerton Library facility. The fund raising was scheduled to commence April 2008 and continue through December 15, 2008.

On May 12, 2008, the City accepted a bid for a new ambulance at a cost of \$111,470. On June 9, 2008, the City approved a down payment of \$25,000 on the ambulance. The remaining ambulance costs will be paid with available local sources once the ambulance is received.

Required Supplementary Information

City of Dunkerton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 173,433	-	173,433
Tax increment financing	225,037	-	225,037
Local option sales tax	79,069	-	79,069
Licenses and permits	7,444	-	7,444
Use of money and property	23,320	4,592	27,912
Intergovernmental	163,122	-	163,122
Charges for service	18,021	197,841	215,862
Miscellaneous	39,668	4,840	44,508
Total receipts	729,114	207,273	936,387
Disbursements:			
Public safety	205,104	-	205,104
Public works	81,176	-	81,176
Culture and recreation	64,414	-	64,414
Community and economic development	25,916	-	25,916
General government	64,259	-	64,259
Debt service	289,618	41,515	331,133
Business type activities	-	153,245	153,245
Total disbursements	730,487	194,760	925,247
Excess (deficiency) of receipts over (under) disbursements	(1,373)	12,513	11,140
Balances beginning of year	587,489	233,586	821,075
Balances end of year	\$ 586,116	246,099	832,215

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
163,773	163,773	9,660
100,000	100,000	125,037
82,190	82,190	(3,121)
9,140	9,140	(1,696)
5,000	5,000	22,912
141,150	156,150	6,972
227,000	227,000	(11,138)
25,200	25,200	19,308
753,453	768,453	167,934
188,302	203,302	(1,802)
72,566	82,566	1,390
72,622	72,622	8,208
30,000	30,000	4,084
54,368	62,368	(1,891)
93,928	333,928	2,795
202,798	202,798	49,553
714,584	987,584	62,337
38,869	(219,131)	230,271
652,782	774,774	46,301
691,651	555,643	276,572

City of Dunkerton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$273,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety and general government functions.

Other Supplementary Information

City of Dunkerton

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2007

	Special Revenue		
	Road Use Tax	Volunteer Fire Department	Ambulance Service
Receipts:			
Use of money and property	\$ -	104	942
Intergovernmental	62,509	-	-
Miscellaneous	-	11,998	845
Total receipts	62,509	12,102	1,787
Disbursements:			
Operating:			
Public safety	-	18,470	230
Public works	70,182	-	-
Total disbursements	70,182	18,470	230
Excess (deficiency) of receipts over (under) disbursements	(7,673)	(6,368)	1,557
Cash balances beginning of year	26,827	19,036	27,262
Cash balances end of year	\$ 19,154	12,668	28,819
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 19,154	12,668	28,819
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 19,154	12,668	28,819

See accompanying independent auditor's report.

Capital Projects	
Capital Improvement	Total
121	1,167
-	62,509
-	12,843
121	76,519
-	18,700
-	70,182
-	88,882
121	(12,363)
10,386	83,511
10,507	71,148
-	60,641
10,507	10,507
10,507	71,148

City of Dunkerton
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Fire Station	Sep 1, 2000	5.20-5.40%	\$ 400,000
Sewer	May 1, 2003	3.00-3.80	225,000
Total			
Revenue notes:			
Sewer	Jul 1, 2001	4.50-5.00%	\$ 345,000
Contingency fund loan:			
City Hall	Jul 10, 2000	None	\$ 112,500

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
185,000	185,000	-	8,156
180,000	25,000	155,000	6,040
<u>\$ 365,000</u>	<u>210,000</u>	<u>155,000</u>	<u>14,196</u>
240,000	30,000	210,000	11,365
<u>67,500</u>	<u>7,500</u>	<u>60,000</u>	<u>-</u>

City of Dunkerton
Note and Loan Maturities

June 30, 2007

Year Ending June 30,	General Obligation Notes		Revenue Notes	
	Sewer		Sewer	
	Issued May 1, 2003		Issued Jul 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount
2008	3.00%	\$ 25,000	4.50%	\$ 30,000
2009	3.10	25,000	4.60	30,000
2010	3.30	25,000	4.70	35,000
2011	3.50	25,000	4.80	35,000
2012	3.70	25,000	4.90	40,000
2013	3.80	30,000	5.00	40,000
2014		-		-
2015		-		-
Total		<u>\$ 155,000</u>		<u>\$210,000</u>

See accompanying independent auditor's report.

Contingency Fund Loan	
City Hall	
Issued Jul 10, 2000	
Interest	
Rate	Amount
0.00%	\$ 7,500
0.00	7,500
0.00	7,500
0.00	7,500
0.00	7,500
0.00	7,500
0.00	7,500
0.00	7,500
0.00	7,500
	<u>\$ 60,000</u>

City of Dunkerton



OFFICE OF AUDITOR OF STATE
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 15, 2008. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dunkerton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Dunkerton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dunkerton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Dunkerton's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Dunkerton's financial statements that is more than inconsequential will not be prevented or detected by the City of Dunkerton's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Dunkerton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

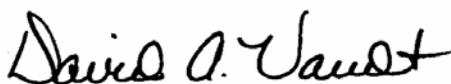
As part of obtaining reasonable assurance about whether the City of Dunkerton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

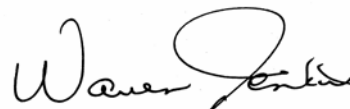
The City of Dunkerton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Dunkerton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dunkerton and other parties to whom the City of Dunkerton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dunkerton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 15, 2008

City of Dunkerton
Schedule of Findings
Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:
- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions, and handling and recording cash.
 - (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
 - (3) Long term debt – recording and reconciling.
 - (4) Receipts – collecting, depositing, journalizing, posting and reconciling.
 - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (6) Disbursements – preparing, recording and reconciling.
 - (7) Payroll – preparing and distributing.
 - (8) Accounting system – performing all general accounting functions and having custody of assets.
 - (9) Computer usage – performing all general accounting functions, preparation of journal entries and controlling data input and output.
 - (10) Financial reporting – preparing, reconciling and distributing.

For the Dunkerton Volunteer Fire Department and the Dunkerton Ambulance Service, one individual has control over each of the following areas:

- (1) Cash – handling and recording cash and preparing bank reconciliations.
- (2) Receipts – collecting, depositing, posting and reconciling.
- (3) Disbursements – check writing, approval, posting and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City, Volunteer Fire Department and Ambulance Service should review the above procedures to obtain the maximum internal control possible under the circumstances. The City, Volunteer Fire Department and Ambulance Service should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such independent reviews should be performed by an independent individual(s) and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – We will review procedures and implement changes to improve internal control. Currently, the Voluntary Fire Department and Ambulance Service are in the process of becoming 501(c)(3) nonprofit corporations.

Conclusion – Response acknowledged. The above recommendations apply whether the Voluntary Fire Department and Ambulance Service are part of the City or are separate nonprofit corporations.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council designated independent person should review the reconciliations and monitor delinquencies.

Response – We will create the delinquent account list on a monthly basis and the Finance Committee or the Water/Sewer Committee will monitor accordingly.

Conclusion – Response acknowledged. An actual reconciliation of billings less collections should be prepared each month and reconciled to the delinquent account list.

- (C) Records of Accounts/Separately Maintained Records – The Volunteer Fire Department and Ambulance Service maintain bank accounts separate from the City Clerk's accounting records. The transactions and resulting balances of these accounts were not reported to the City Council each month and were not recorded in the City Clerk's accounting records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

Additionally, prenumbered receipts were not issued. Also, the accounting records did not include classification of receipts or disbursements by source and function, respectively. Also, only one signature is required to validate checks.

Recommendation – The Volunteer Fire Department and Ambulance Service financial transactions and balances should be included in the Clerk's monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the accounts with the City's accounting records.

Prenumbered receipts should be issued for all collections. The accounting records should include the classification of receipts and disbursements by source and function, respectively.

Checks should be signed by the preparer and then provided to an independent individual for review and counter signature to provide control over disbursements.

Response – The Volunteer Fire Department and Ambulance Service are in the process of becoming 501(c)(3) nonprofit corporations.

Conclusion – Response acknowledged. The recommendations in the second and third paragraphs above apply whether the Volunteer Fire Department and Ambulance Service are part of the City or are separate nonprofit corporations.

- (D) Bank Reconciliations and Computerized Financial Reports – Complete monthly bank to book reconciliations were not prepared, including all City bank accounts and investments. Also, computerized financial accounting records did not agree with the balances provided to City officials for review and approval.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

Recommendation – Complete monthly bank to book reconciliations should be prepared, including all City bank accounts and investments. Variances, if any, should be resolved timely. Monthly financial reports and bank to book reconciliations should agree to the computerized records and be provided to the City Council each month for review and approval.

Response – The software support person will assist the City Clerk in proper use of the computer system software. With a new Treasurer in place, the original reports are kept at the City Hall office.

Conclusion – Response acknowledged. In addition, monthly bank to book reconciliations which include all City bank accounts and investments should be prepared.

- (E) Investments – Investment records were maintained. However, the records did not agree with the computerized financial accounting records.

Recommendation – A detailed investment record should be maintained detailing the investment number, date purchased, maturity date, interest rate, fund(s) held for, interest earned and any other information the City feels is necessary. This record should be kept current each month and reconciled to the bank and computerized financial accounting records on a monthly basis.

Response – The software support person will assist the City Clerk in proper use of the computer system software and assist the City Clerk in reconciling the investment records each month with the bank records and the City's computerized financial records.

Conclusion – Response accepted.

- (F) Disbursements – For seven of 26 claims tested, supporting invoices were not available to support the disbursement. Additionally, the City does not have written policies for 1) allowing the City Clerk to pay certain City bills prior to City Council approval and 2) documenting the types of disbursement to be charged on City credit cards and the type of supporting documentation required to be provided to support charges on the credit card.

Recommendation – The City should require invoices and supporting documentation to support all disbursements. The City should also approve written policies and procedures for the items noted above. Additional written policies and procedures should be established as needed.

Response – Original invoices are now required. The City will develop a policy for its requirements for proper disbursement of funds. The City Council will adopt a resolution stating which bills may be paid prior to Council approval, and require original invoices for credit card billings.

Conclusion – Response accepted.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

- (G) Payroll – Payroll stubs and time card hours did not always agree. In certain instances, more personal hours were taken than allowed according to City policy. Also, the personnel policy does not address the usage and payments of comp time hours.

Additionally, our review noted City Council approval of Resolution 2006-18 for “FY 2007 Salary Resolution.” We found approval of the resolution in two different forms detailing different rates of pay for individuals.

Recommendation – The City should consult legal counsel to determine the disposition of this matter. Additionally, the City should ensure written policies are established concerning comp time hours and also review to ensure written policies are being followed as approved.

Response – One pay resolution will be approved, adopted and used for the future. Review of the time cards will be monitored by the Finance Committee in the future. Paid time-off will be closely monitored. We have asked for a proposal from INRCOG to update the personnel policy and the need for comp time hours will be addressed at that time.

Conclusion – Response accepted.

- (H) Transfers – Intrafund transfers were not authorized by the City Council and documented in the minutes record.

Recommendation – All transfers should be approved by the City Council and approval documented in the minutes record. Procedures should be developed to require adequate explanations and documentation for each transfer.

Response – Transfers from one fund to another will be brought before the Council for approval.

Conclusion – Response accepted.

- (I) Written Policies and Procedures – The City does not have written policies for:

- 1) Computer system back ups and storage of back up files off site.
- 2) Software usage.
- 3) Requiring password changes and privacy.
- 4) Storage of unused City checks.
- 5) Accounting procedures manual.

Recommendation – The City should develop written policies addressing the above items to improve the City’s controls over the various functions noted. Additional written policies should be approved for additional areas as the City feels necessary. Also, a written disaster recovery plan should be developed, approved and kept at an off site location.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

Response – The City will work on developing written policies for purchases and bidding requirements and the use of purchase orders for prior approval of purchases. Unused checks are now locked and an accounting manual has been started.

Conclusion – Response acknowledged. The City should also develop written policies for the computerized system as addressed in items 1) through 3) above.

- (J) Questionable Pay – Chapter 372.13(4) of the Code of Iowa states, in part, “Except as otherwise provided by state or city law, the council may appoint city officers and employees, and prescribe their powers, duties, compensation and terms.” Article III, Section 31 of the Constitution of the State of Iowa requires public funds be spent for public purposes.

During the audit, it came to our attention the former Mayor authorized two City employees to record approximately 4.5 hours for time apparently not worked. The City Council did not authorize the unrecorded leave and the public purpose was not documented by the City Council and was not readily apparent. We were unable to definitively determine whether the employees actually worked this time or not. However, this appeared to be an isolated instance.

Recommendation – Pursuant to Chapter 372.13(4) of the Code of Iowa, the City Council prescribes the compensation of city officers and employees. It was unclear whether the Mayor was authorized by the City Council to authorize unrecorded leave with pay. The City should ensure time charged by employees, including compensated absences such as vacation and sick leave, are properly authorized and paid according to the City Council’s approved wages and policies.

Response – We have sought a proposal from Iowa Northland Regional Council of Governments (INRCOG) to assist with updating the personnel policy and will include an item that specifies that one must work the number of hours claimed in order to be compensated for same.

Conclusion – Response acknowledged. Procedures should be implemented to ensure City employees are only paid for properly authorized time.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the public safety and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – Although the budget was amended twice, the budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will monitor the budget closely to be certain that we do not exceed the allowable amount appropriated.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

On August 24 and September 11, 2006, the Volunteer Fire Department approved the purchase of flower arrangements for \$40.09 and \$31.74, respectively.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Dunkerton Volunteer Fire Department and City Council should determine and document the public purpose served by these disbursements before authorizing further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation of public purpose/benefit.

Response – We will monitor the invoices closely to be certain that these types of expenditures are not paid with public funds.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dale and Dan Steffen, Council Member and Fire Chief, respectively, Owners of Steffen Services	Supplies/Services	\$ 3,044
Tom Bagby, Council Member, Owner of Bagby Repair	Service/Repairs	1,048

The transactions with Council Member Bagby do not appear to represent a conflict of interest in accordance with Chapter 362.5.(11) of the Code of Iowa since the total transactions were less than \$1,500 during the fiscal year.

The transactions with Council Member Steffen and Fire Chief Steffen may represent a conflict of interest since total transactions exceeded \$1,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of the disbursements to Steffen Services.

Response – We will use competitive bidding when possible and/or limit services to the \$1,500 max to avoid conflicts of interest.

Conclusion – Response acknowledged. The City should also consult legal counsel to determine the disposition of the matter noted above.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is not in accordance with statutory provisions. The City does not have or was not able to document surety coverage was in place for the year ended June 30, 2007.

Recommendation – The City should ensure surety coverage is obtained as required by statutory provisions.

Response – We have been in contact with our insurance carrier and the lapsed surety bond coverage will be in place shortly.

Conclusion – Response accepted.

- (6) Council Minutes – Except as previously noted in Comment 2 and as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes were published, the publications did not include a summary of receipts.

Recommendations – The City should include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

Response – Totals of receipts will be included with the minute book and in the published minutes.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Sewer Revenue Notes – The provisions for the sewer revenue notes require sufficient monthly transfers be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due. In addition, the provisions for the sewer revenue notes requires a reserve account to be established.

The City has not established the sinking and reserve accounts required by the sewer revenue note provisions.

Recommendation – The City should establish the required sinking and reserve accounts and make sufficient monthly transfers to the sinking account for the purpose of making the note principal and interest payments when due.

Response – We will review the sewer note resolution and research further if any of the certificates of deposit were intended for the sinking fund or reserve fund. If so, we will clarify the amounts for each or establish accounts as required.

Conclusion – Response accepted.

- (9) Local Option Sales Tax and Community Development Block Grant Funds – The City collected local option sales tax totaling \$79,069 and also received Community Development Block Grant funds totaling \$44,923 which were posted directly to the General Fund.

The City's records did not contain sufficient detail to determine whether the local option sales tax proceeds were spent in accordance with the purposes stated in the ballot. In addition, the usage of the Community Development Block Grant funds is not being tracked.

Recommendation – The City should establish a separate special revenue fund to facilitate tracking of local option sales tax proceeds and the disbursement of such funds in accordance with purposes stated in the ballot. Additionally, the City should establish a separate special revenue fund to track the usage of Community Development Block Grant funds.

Response – We will create a special revenue fund account and make the appropriate 75/25 allocation in accordance with the purposes stated in the ballot. We will also create a special revenue fund account to track the usage of Community Development Block Grant funds.

Conclusion – Response accepted.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows an entity to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We have talked with our bank and are now receiving the front and back of each check issued.

Conclusion – Response accepted.

- (11) Utility Penalty – Utility penalties were properly applied as approved by City ordinance. However, our review of utility accounts noted certain penalties being written off without City Council approval.

Recommendation – Any write-offs of penalties or other utility account activity should be authorized/approved by the City Council and/or a designated City Official. The approval should also be documented in the minutes record when approved.

Response – The City understands any abatements to utility billings are to be approved by the City Council and the Clerk does not have the authority to adjust or abate charges.

Conclusion – Response accepted.

- (12) Development Agreement – The City entered into a development and rebate agreement with a developer to assist in urban renewal projects. The City agreed to rebate incremental tax paid by the developer in exchange for the reimbursed costs of certain public improvement infrastructure constructed by the developer as set forth in the urban renewal plan.

In accordance with the development and rebate agreement, the incremental tax to be received by the City under Chapter 403.10 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreement is not to exceed 50% of the total projected costs. Of the amount collected, 62.5% is to be paid to the developer and 37.5% is to be used for the development of low and moderate income housing projects.

During the year ended June 30, 2007, the City paid \$41,894 for low and moderate income housing projects from the tax increment financing received. City records were not readily available to document the status of remaining low and moderate income housing project funds, if any, at June 30, 2007.

Recommendation – The City should work with the City Attorney and/or tax increment financing (TIF) legal counsel regarding the status and disposition of this development agreement and determine whether or not the City has completed its responsibility under this agreement.

City of Dunkerton

Schedule of Findings

Year ended June 30, 2007

Response – The City of Dunkerton is working with its financial advisor and attorney to resolve this.

Conclusion – Response accepted.

- (13) Tax Increment Financing – Funds of \$141,265 were on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2007. This amount was not deducted from the amount of debt certified December 1, 2007.

During fiscal year 2007, a transfer of \$381,112 was made from the Tax Increment Financing Fund to the Debt Service Fund, of which \$192,850 represented an amount to pay off the Series 2003 general obligation notes. However, the City requested \$29,540 for fiscal year 2009 representing principal and interest payments on the Series 2003 general obligation notes.

As a result of the above items, the City requested excess TIF revenue of approximately \$170,800 at December 1, 2007, potentially resulting in actual excess TIF collections in future periods.

Recommendation – The City should review the TIF agreement to determine the correct amount of TIF debt for future certifications. Any cash on hand in the Special Revenue, Tax Increment Financing Fund should be deducted from the debt amount in determining the amount to certify. If the City has more cash on hand than TIF debt has been certified, the cash should be returned to the County Treasurer to be reapportioned. In addition, the City should consult legal counsel regarding TIF collections in excess of certified debt requirements.

Response – The City of Dunkerton is working with its financial advisor and attorney to resolve this.

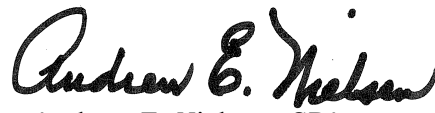
Conclusion – Response accepted.

City of Dunkerton

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Aaron P. Wagner, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct dot over the 'i' in Nielsen.

Andrew E. Nielsen, CPA
Deputy Auditor of State